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BEANCOUNTR INC.: A FINANCING and INVESTING ExerCiSE

Kaitlyn Oh wrote this exercise under the supervision of Ian Dunn solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In April 2020, Lindy Supert, owner and founder of BeanCountr Inc. (BeanCountr), was reviewing her company’s financial performance for its third fiscal year (FY). BeanCountr was a financial technology start-up located in London, Ontario, Canada. Supert had already reviewed the company’s operating decisions over the previous year and was now eager to review the company’s financing and investing transactions. Supert downloaded BeanCountr’s fiscal 2019 balance sheet (see Exhibit 1), prepared using International Financial Reporting Standards (IFRS), and began to work.

TRADING INVESTMENTS

On May 2, 2019, BeanCountr purchased 120 PortKey Electric Corp. 10-year bonds when the market interest rate was 6 per cent. To purchase the bonds, BeanCountr paid CA$138,416.[[1]](#footnote-1) The price included accrued interest and a $460 brokerage fee. The bonds were first issued on November 15, 2015, when the market interest rate was 4 per cent. The bond paid an annual coupon rate of 8 per cent on November 15 and May 15 of each year. On August 30, 2019, BeanCountr sold 100 per cent of the PortKey Electric Corp. bonds when the market interest rate was 5 per cent, incurring a brokerage commission of $270.

At the beginning of fiscal 2020, BeanCountr owned 1,800 common shares of Persimmon Ltd. On September 12, 2019, Persimmon declared a common dividend of $0.35 per share. The date of record for the dividend was September 19, 2019, and the date of distribution was October 2, 2019.

On December 21, 2019, Persimmon declared a 5 per cent stock dividend when the shares were trading at $14.10. The date of record for the dividend was January 3, 2020, and the date of distribution was January 15, 2020. On the date of record, the shares were trading at $14.25. On the date of distribution, the share price had fallen to $13.70.

At BeanCountr’s 2020 fiscal year-end, Persimmon’s common shares were trading at $13.85 per share.

EQUITY FINANCING

On the date of incorporation, Supert contributed $68,000 in exchange for 4,000 BeanCountr common shares. On that same date, Supert issued 1,000 cumulative and convertible $2 preferred shares to her friends and family in exchange for $52,000. Preferred shares could be converted at any time to common shares at a rate of four common shares for each preferred share.

BeanCountr declared a 2 per cent stock dividend to common shareholders on April 10, 2019, when its shares were trading at $15.20. The dividend had a date of record of April 16, 2019 and would be distributed on April 28, 2019. On the date of record, the shares were trading at $15.35; on the date of distribution, the share price had increased to $15.60.

Of the outstanding preferred shares, 20 per cent were converted to common shares on August 21, 2019. On the date of conversion, common shares were trading at $16.70, and preferred shares were trading at $48.30.

BeanCountr declared a $0.50 per share cash dividend to common shareholders on March 21, 2020, when its shares were trading at $12.50. The dividend had a date of record of March 28, 2020 and would be distributed on April 15, 2020. At fiscal year-end, common and preferred shares were trading at $16.70 and $48.25, respectively.

DEBT FINANCING

On February 3, 2020, BeanCountr secured a $25,000 line of credit from the bank. Interest was charged at a floating interest rate on the amount borrowed. On February 17, 2020, BeanCountr borrowed $14,500 on the line of credit. On March 31, 2020, BeanCountr paid $66 in cash for the accrued interest for the months of February and March.

On July 15, 2017, BeanCountr issued 50 callable[[2]](#footnote-2) 10-year bonds. The bonds paid an annual coupon rate of 8.5 per cent that was distributed semi-annually on January 15 and July 15. At the time the bonds were issued, the market interest rate was 7 per cent. BeanCountr recalled 20 per cent of the outstanding bonds on March 1, 2020, when the market interest rate was 8 per cent.

REQUIRED

Supert must now record the opening balances and all necessary transactions for BeanCountr Inc.’s fiscal year, ending March 31, 2020.

Exhibit 1: BeanCountr Inc. STATEMENT OF FINANCIAL POSITION, March 31, 2019 (in CA$)

|  |  |  |
| --- | --- | --- |
| **ASSETS** |  |  |
|  |  |  |
| **Current assets:** |  |  |
| Cash |  | $159,481 |
| Accounts receivable |  | 10,062 |
| Trading investment, stock |  | 27,000 |
| Total current assets |  | 196,543 |
|  |  |  |
| **Total assets** |  | $196,543 |
|  |  |  |
| **LIABILITIES AND SHAREHOLDERS’ EQUITY** |  |  |
|  |  |  |
| **Current liabilities:** |  |  |
| Bond interest payable |  | $885 |
| Total current liabilities |  | 885 |
|  |  |  |
| **Long-term liabilities:** |  |  |
| 8.5% Bond payable\* |  | 54,658 |
| Total long-term liabilities |  | 54,658 |
|  |  |  |
| Total liabilities |  | 55,543 |
|  |  |  |
| **Shareholders’ equity:** |  |  |
| Common stock (4,000 outstanding, unlimited authorized) |  | 68,000 |
| Contributed capital, preferred stock |  | 620 |
| $2 cumulative, convertible, preferred stock (800 outstanding, 5,000 authorized)\*\* | | 41,600 |
| Retained earnings |  | 30,780 |
| Total shareholders’ equity |  | 141,000 |
|  |  |  |
| **Total liabilities and shareholders’ equity** |  | $196,543 |
|  |  |  |

Note: \*Between January 15, 2019 and March 31, 2019, the bonds had been amortized by $87; \*\*dividends were last declared on November 28, 2018.

Source: Created by the authors.

1. All currency amounts are in CA$ unless otherwise specified. [↑](#footnote-ref-1)
2. The 8.5 per cent bonds were callable at 107 at the option of BeanCountr. [↑](#footnote-ref-2)